

Box 3

LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS IN THE PERIOD FROM 10 NOVEMBER 2010 TO 8 FEBRUARY 2011

This box describes the ECB's liquidity management during the reserve maintenance periods ending on 7 December 2010 and 18 January and 8 February 2011. During this period all euro refinancing operations continued to be conducted by means of fixed rate tender procedures with full allotment. The gradual normalisation of monetary policy operations continued, with the last one-year longer-term refinancing operation (LTRO) maturing on 23 December. On 2 December the Governing Council decided that all main refinancing operations (MROs), special-term refinancing operations with a maturity of one maintenance period and three-month LTROs would be carried out as fixed rate tender procedures with full allotment until at least the end of the third maintenance period of 2011 on 12 April.

The Securities Markets Programme (SMP) announced on 10 May 2010 remained in operation, in conjunction with weekly liquidity-absorbing operations with a one-week maturity aimed at sterilising the additional liquidity provision stemming from the programme.

Liquidity needs of the banking system

In the period under review, the banking system's aggregate daily liquidity needs – defined as the sum of autonomous factors, reserve requirements and excess reserves (i.e. current account holdings in excess of reserve requirements) – averaged €520.3 billion. This was €28.5 billion lower than the daily average recorded in the previous three maintenance periods.

This was due mainly to a decline of €26.8 billion in the average value of autonomous factors, which stood at €308.9 billion. The average level of reserve requirements was €211.3 billion, down by €1.9 billion. Daily excess reserves averaged €1.144 billion, although they reached €1.86 billion in the maintenance period which ended in January – the highest level since the all-time peak observed at the time of the collapse of Lehman Brothers (see Chart A).

Liquidity supply

In the period under review, total liquidity supplied by means of open market operations averaged €574.3 billion, down by €40 billion compared with the previous three maintenance periods, with tender operations¹ providing liquidity of €441.3 billion on average. The covered bond purchase programme (CBPP),

Chart A Banks' current account holdings in excess of reserve requirements

(EUR billions; average level in each maintenance period)



Source: ECB.

¹ Tender operations include MROs, LTROs and fine-tuning operations, the last of which can be liquidity-providing as well as liquidity-absorbing.

for which purchases ended on 30 June 2010, provided €60.7 billion. The CBPP and the SMP together provided an average of €133 billion in liquidity. An average net amount of €70.7 billion was absorbed by means of fine-tuning operations during this period.

Compared with the three maintenance periods spanning 11 August to 9 November 2010, the average liquidity supplied by one-week MROs increased by €22.3 billion to €188.9 billion, while average refinancing through LTROs dropped by €66.5 billion to €323 billion. This was largely the result of the partial rollover of the three LTROs² maturing on 30 September and the maturing of the last one-year LTRO (€96.9 billion) on 23 December, the latter resulting in a reduction in average overall LTRO refinancing by around €33.9 billion in the period under review.

The average liquidity provided by special-term refinancing operations with a maturity of one maintenance period rose by €24.5 billion to €67.2 billion in the period under review.

In parallel, the average liquidity supplied by three-month LTROs increased by €46.4 billion to €209.6 billion (with the allotment amounts rising especially after the last one-year operation matured in December 2010), thereby returning to levels observed in the autumn of 2008.

On 4 February 2011 the net value of settled purchases under the SMP stood at €76.5 billion, up from €64 billion on 5 November 2010.

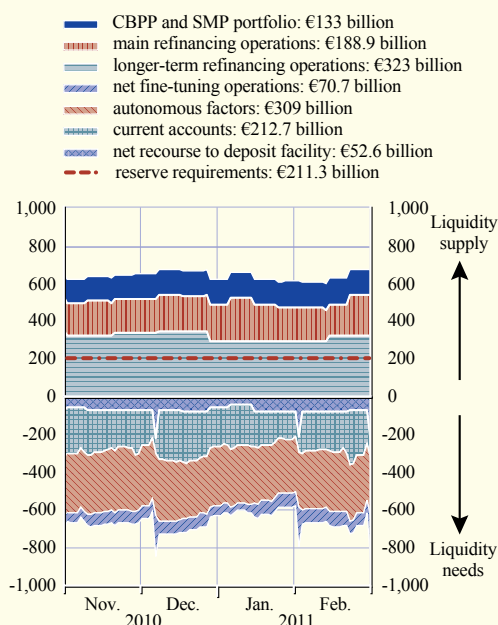
In parallel, the weekly one-week operations absorbing the liquidity provided by the SMP increased by the same amount, absorbing an average of €69.6 billion in the period under review. The liquidity absorbed by means of fine-tuning operations with an overnight maturity on the last day of each maintenance period averaged €146.9 billion, which was very close to the average level in the previous three maintenance periods (see Chart B).

Use of standing facilities

The overall decline in the liquidity supply and the reduction in excess liquidity to €54 billion on average in the period under review resulted in lower net recourse to the deposit facility,³ which averaged around €52.6 billion per day. Owing to developments in liquidity conditions,⁴ daily net recourse to the deposit facility fluctuated significantly in the three maintenance periods covered,

Chart B Liquidity needs of the banking system and liquidity supply

(EUR billions; daily averages for the whole period are shown next to each item)



Source: ECB.

2 On 30 September a three-month LTRO, a six-month LTRO and a one-year LTRO all matured, with a total value of €224.7 billion.

3 Net recourse to the deposit facility is calculated as recourse to the deposit facility minus recourse to the marginal lending facility, including weekends.

4 The maturing of the last one-year LTRO on 23 December and the settlement of a six-day bridge operation on the same day.

averaging €40.2 billion between the beginning of the period under review and 23 December 2010, €84.6 billion between 23 December and the end of the second maintenance period on 18 January 2011, and €39.2 billion in the third maintenance period (ending on 8 February 2011).

Interest rates

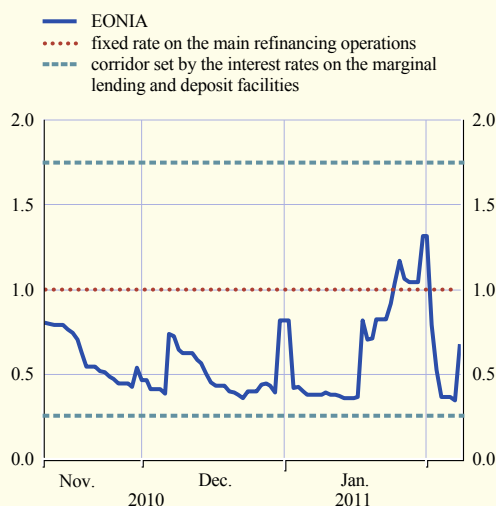
The ECB's key interest rates have remained unchanged since 13 May 2009, with the rate on the main refinancing operations standing at 1.00%, the marginal lending rate at 1.75% and the deposit rate at 0.25%.

With liquidity remaining ample in the period under review and excess liquidity slightly lower – albeit still sizeable – the EONIA remained mostly below the main refinancing rate, averaging 0.59%. Owing to a number of factors, however, it exhibited increased volatility, comparable to that observed in periods before June 2009. The EONIA ranged from 0.34% to 1.32% in the period under review, with the volatility reflecting liquidity conditions and end-of-year as well as other technical effects.

In the first of the maintenance periods under review, the EONIA displayed a trend which followed the reserve maintenance cycle, starting at 0.81% and gradually declining to 0.39% towards the end of the maintenance period when reserve fulfilment was nearing a successful completion (see Chart C). While the last maintenance period of 2010 started in a similar fashion, factors such as end-of-year effects led to a temporary spike in the EONIA, at 0.82%. The EONIA subsequently returned to levels below 0.40% (owing to ample liquidity and early reserve fulfilment) until the last day of the maintenance period (18 January 2011), when it increased to 0.81%. The short maintenance period (21 days) which started on 19 January 2011 saw counterparties' reserve fulfilment ratio returning to pre-crisis levels (a balanced daily fulfilment of required reserves), albeit with signs of under-fulfilment, which led the EONIA to gradually increase and reach 1.32% on 1 February. However, it returned to levels below 0.40% after the increased MRO allotment of €213.7 billion in the same week, which allowed counterparties to boost their reserves towards the end of the maintenance period.

Chart C The EONIA and the ECB interest rates

(daily interest rates in percentages)



Source: ECB.